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C O N F I D E N T I A L SECTION 01 OF 03 BRUSSELS 000833

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [EUN](#) [EINV](#)
SUBJECT: SUBJECT: EU STRATEGIC ENERGY ISSUES: LOOKING
EAST, BUT WHERE?

Classified By: EST CHIEF THOMAS SMITHAM FOR REASONS 1.4 (b) AND (d)

¶1. (C) Summary. In meetings with visiting EEB Deputy Assistant Secretary Douglas Hengel, EU officials said that they were committed to diversifying their sources and routes for gas into the EU but agreed that the EU,s professed aim to speak with one voice on external policy had not yet been a success. A representative of the EU,s Nabucco coordinator outlined an ambitious proposal to engage Turkmenistan more concretely in providing gas for the EU. He also noted that the EU needs to get serious about alternative Southern routes: Nabucco, he said, is not the only option and may be unworkable, and officials in the EU are increasingly thinking about how gas routes to Europe could avoid Turkey. The French EU Presidency is apparently planning to invite the leaders of at least Azerbaijan and Turkmenistan Paris for an energy-focused meeting in November; Hengel pushed for more EU attention to Azerbaijan. In response to probes, Hengel reiterated strong US opposition to any Iranian gas in new pipelines to Europe. Commission and Council officials endorsed bringing China and India closer to and eventually into the IEA. On internal energy policy, Commission officials said that they expected EU agreement in June on a slightly watered-down Third Energy Package, designed to unbundle network energy operators from producers and to prevent Gazprom from owning assets in the EU. End summary.

¶2. (C) DAS Douglas Hengel met with Matthias Reute, DG at DG TREN (transport and energy), Steven Everts, counselor to European Council High Representative Javier Solana; Brendan Devlin, aide to the EU,s Nabucco coordinator Jozias van Aartsen; Marjeta Jager, the new Director for External and Institutional energy and transport issues at DG TREN; and Matthew Baldwin, energy adviser to European Commission President Barroso.

Solana,s aide on Nabucco

¶3. (C) In an overview of EU energy and climate policy, Everts from Solana,s office said he thought the EU had made good progress on climate issues, decent progress on internal energy policy, and poor progress on developing its external energy policy. (In a separate meeting, Baldwin called it the EU,s &headless chicken& problem.) But, he said, Solana took developing an external energy policy seriously. He noted that Solana viewed Nabucco as the &flagship project for the EU&. Everts outlined the two problems he saw on realizing Nabucco: Turkey and gas transit, and supplies. On Turkey, Everts thought that there was &lysis& at the moment in Turkey, preventing Turkey from making decisions. He also noted that for Turkey, membership in the EU is inextricably linked to its role in gas transit to the EU. Though Solana,s relationship with Turkish officials is good, Everts said, he did not think the time was right to press Turkey on gas transit.

¶4. (C) On gas supply, Everts said that Solana believed the leaders of Turkmenistan and Azerbaijan were being cautious while they tried to figure out how Russia would respond to

their attempts to diversify their sales of gas. Hengel made the point that President Aliyev did not believe he was getting the attention he deserves from the EU if the EU is serious about getting Azeri gas. (Note: President Aliyev made this point to Special Envoy Gray and DAS Matthew Bryza in Kyiv on May 23.) Everts said he would pass this message to Solana. Hengel made the same point with the staffs of DG TREN and President Barroso. Hengel noted Solana's call for the IEA to consider expanding to include China and India, which the US supports. Everts indicated Solana would continue to raise this issue.

Ambitious plans

15. (C) In a separate meeting, EU Nabucco coordinator Van Aartsen's aide Brendan Devlin said that Van Aartsen was moving beyond a focus on Nabucco. Devlin outlined an ambitious plan to develop a "big option" for Caspian gas for Europe. This would involve the EU courting Turkmenistan and offering a package of financing and guarantees so that Turkmenistan would commit a large amount of gas (around 50 bcm) to Europe. The option that Devlin said is looking increasingly attractive is a route that avoids Turkey and travels under the Black Sea. These plans are not fully developed but would involve loan guarantees from the European Investment Bank and decisions about how to place the gas in the EU market.

16. (C) Devlin works for Van Aartsen in a role that allows both of them plausible deniability i.e., neither actually works for the Commission but they are closely aligned with

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it. Thus, it is not easy to pin down whether they are floating EU positions or merely developing schemes they hope others will eventually sign on to. In any case, it was telling that Devlin said that Van Aartsen, the EU's Nabucco coordinator -- thought Nabucco as it is currently conceived is unrealistic. There could be as many as 71 players (countries and companies) involved from the origination of the gas through to delivery, with gas potentially cobbled together from a number of different sources. However, Devlin thought a Nabucco model with one or two sources -- Shah-Deniz phase II and Turkmenistan might be workable. Devlin also probed about gas from Iran (as did Baldwin from Barroso's office), which Hengel indicated the US would strongly oppose.

17. (C) Devlin said that Van Aartsen is increasingly concerned that Turkey is the potential roadblock to the EU's plans to get gas from the Caspian region. Devlin said that Turkey had used energy policy for political purposes in rejecting Gaz de France from the Nabucco consortium, and that this had sent a bad signal to EU countries and companies. Turkey's response to the proposed intergovernmental agreement among Nabucco partners, which Devlin had just seen, confirmed these views. Devlin described Turkey's input as "we will take all the gas we need, then charge fees we think are appropriate." Avoiding Turkey is something that Devlin said needs to be contemplated and planned for. Devlin said a meeting among Nabucco partners is being planned for June. Special Envoy Gray will be invited to participate if the meeting occurs.

18. (C) According to a Commission-funded study by a group called Inogate, a pipeline through Turkey is not currently the cheapest way to get gas from the Caspian region to the EU. The Inogate study identifies the cheapest route with current policy (i.e., Turkish policy) as a 50 bcm pipeline under the Black Sea. The study prices this option at \$9.4 billion from Kazakhstan/Turkmenistan and \$7.7 billion from Azerbaijan. The second cheapest option, according to the Inogate paper, is for a 50 bcm pipeline through Turkey. The study prices this option at \$10 billion from Kazakhstan/Turkmenistan and \$8.3 billion from Azerbaijan. The Nabucco option is estimated to be about 15% higher

still. (Devlin provided only one page of the study but we have requested the full report.) Comment: "energy company representatives we spoke to subsequently were dismissive of Devlin's grandiose vision".

¶9. (C) Thus, Devlin urged a focus on a broader set of options than just Nabucco. He urged U.S. to support a "Southern Europe" route(s) rather than say we support Nabucco. (Comment: Again, this is not necessarily the view of the Commission, but Devlin indicated that it was gaining acceptance.) He indicated that OMV would be happy if Nabucco stopped in Bulgaria and connected to South Stream.

¶10. (C) Devlin said that the French Presidency, which plans to make energy and climate change a key feature of its six-month turn at the head of the EU, plans to host the leaders of Azerbaijan and Turkmenistan in November in order to promote possible options for gas supply to Europe. Devlin was unsure whether the French planned to include Turkey in this meeting.

Internal Energy issues

¶11. (C) Meetings with DG TREN,s Matthias Ruete and with Barroso,s aide Matthew Baldwin focused more on internal EU energy policy) though there is a clear relationship to external policy.

¶12. (C) Baldwin was confident that the Commission,s proposed package of reforms for the internal gas and electricity market, announced last September, (REFTEL Brussels 2948) would be adopted by June. Ruete was similarly optimistic. However, both acknowledged that the final legislation would not mandate immediate ownership unbundling in the energy sector (that is, separation of production and distribution). A compromise was in the works which could entail more regulatory oversight, backed up by competition policy, with ownership unbundling to come later. Baldwin said the French wanted this completed before it assumed EU Presidency. In discussing the necessity to compromise, Ruete asked rhetorically &who would have thought two years ago that the EU would be this far in terms of an EU energy policy?8 Both Ruete and Baldwin argued that the internal reforms were critical to enhancing European energy security.

¶13. (C) The second controversial feature of the EU,s energy legislation concerns the so-called "Gazprom clause" which would prohibit any foreign control of the EU,s gas and electricity transmission systems unless an) unspecified)

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agreement is in place between the investor,s country and the EU. This clause was largely targeted at Gazprom in order, ostensibly, to apply the same type of requirements on it as the Commission proposed applying to the EU,s own integrated energy companies, although the impact would be broader. While the Germans are not too keen on the clause, according to Baldwin, the Eastern European members of the EU have told Barroso that they need some "protection" from Russia. Ruete said that the key thing for the Commission was to force more transparency into Gazprom,s dealings with EU energy companies. With more transparency, competition and other internal market levers could help assure that Gazprom did not develop into a vertically integrated energy monopolist in Europe.

MURRAY

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